

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-01 INR-05 L-02

NSAE-00 NSC-05 PA-01 RSC-01 PRS-01 SP-02 SS-15

USIA-06 AID-05 COME-00 EB-04 FRB-01 TRSE-00 XMB-02

OPIC-03 CIEP-01 LAB-01 SIL-01 OMB-01 STR-01 AGR-05

IGA-01 /079 W

----- 082503

P R 222305Z OCT 74

FM AMEMBASSY LIMA

TO SECSTATE WASHDC PRIORITY 2450

INFO AMEMBASSY LA PAZ

AMEMBASSY SANTIAGO

AMEMBASSY QUITO

AMEMBASSY BOGOTA

AMEMBASSY CARACAS

C O N F I D E N T I A L SECTION 1 OF 2 LIMA 8955

EO 11652: GDS

TAGS: EIND, PINT, PGOV, PE

SUBJECT: GROWING SCANDAL IN GOVERNMENT CONSISTUTES UNSETTLING

NOTE ON PERUVIAN POLITICAL SCENE

REF: LIMA 8823

1. SUMMARY: LIMA HAS RECENTLY BEEN ROCKED BY HEAVY PRESS
PLAY ACCORDED SCANDAL IN EPSA (THE GOP FOOD PURCHASING AND
MARKETING AGENCY) WHICH MAY INVOLVE MORE THAN \$100 MILLION
AND HAS ALREADY RESULTED IN ORDER OF DETENTION FOR 93 PER-
SONS. ONE RUMOR IS THAT MINISTER OF AGRICULTURE VALDEZ MAY
EVENTUALLY BE FORCED TO RESIGN. REASONS ADVANCED FOR WHY
SCANDAL HAS EMERGED AT THIS TIME AND IS THIS WAY RANGE FROM
A CALCULATED MOVE BY VELASCO WHICH COULD EVENTUALLY PERMIT
HIM TO REORGANIZE GOVERNMENT MORE TO HIS LIKING, TO A MOVE BY
MODERATES AGAINST LEFTIST ELEMENTS IN CABINET. SO FAR
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VELASCO APPEARS TO BE IN CONTROL OF SITUATION, BUT FORCES

MAY HAVE BEEN RELEASED WHICH HE COULD EVENTUALLY FIND MORE DIFFICULT TO MASTER. SITUATION HAS ALREADY PRODUCED UNEASINESS AMONG BOTH MILITARY OFFICERS AND MIDDLE CLASS. AT THE LEAST, POLITICAL SITUATION SEEMS NOW MORE FLUID THAN AT ANY TIME SINCE REVOLUTIONARY GOVERNMENT ASSUMED POWER SIX YEARS AGO. END SUMMARY

2. FOR PAST WEEK, PERU HAS BEEN ROCKED BY A MAJOR SCANDAL INVOLVING ALLEGED DEFALCATIONS OF PERHAPS MORE THAN A HUNDRED MILLION DOLLARS ON THE PART OF OFFICIALS OF THE EMPRESA PUBLICA DE SERVICIOS AGROPECUARIOS (EPSA). EPSA IS A HUGE ORGANIZATION ESTABLISHED IN 1969 BY THE REVOLUTIONARY GOVERNMENT TO CENTRALIZE THE PURCHASE AND SALE OF AGRICULTURAL PRODUCTS. AS NOW ORGANIZED, EPSA IS CHARGED WITH THE EXPORT AND IMPORT OF SUCH COMMODITIES AS GRAINS, MEAT AND EDIBLE OILS. IT ALSO PURCHASES AND RETAILS OR EXPORTS DOMESTIC AGRICULTURAL PRODUCTS SUCH AS VEGETABLES AND COFFEE. ON THE DISTRIBUTION SIDE, IT OPERATES A CHAIN OF SIXTEEN LARGE SUPER MARKETS AND MORE THAN TWO THOUSAND SMALLER ESTABLISHMENTS.

3. ACCORDING TO PRESS REPORTS, INVESTIGATION HAS NOW REVEALED IRREGULARITIES TO THE EXTENT OF 5.2 BILLION SOLES WITH ONE REPORT EVEN PLACING THE FIGURE AT TEN BILLION SOLES (ABOUT \$250 MILLION). GOP HAS ORDERED THE ARREST OF 93 PERSONS, 41 OF WHOM ARE NOW IN CUSTODY, AND HAS FROZEN THEIR ASSETS. SEVERAL PROMINENT PERSONS HAVE ALREADY BEEN NAMED, INCLUDING AT LEAST ONE ARMY COLONEL AND A SENIOR OFFICIAL OF THE MINISTRY OF FINANCE. COMMERCE MINISTER TAS ALREADY RESIGNED (ALTHOUGH IT NOW APPEARS THIS ONLY INDIRECTLY RELATED TO SCANDAL--SEE SEPTTEL) AND RUMORS ARE THAT SCANDAL WILL FORCE THE RESIGNATION OF MINISTER OF AGRICULTURE VALDEZ AND TOP OFFICIALS OF HIS MINISTRY. TO TAKE CHARGE OF AND INVESTIGATE EPSA, GOP HAS APPOINTED A COMMITTEE HEADED BY LT. COL. CARLOS CARRASCO. CARRASCO, WHO IS SAID TO REPORT DIRECTLY TO VELASCO, IS A TOUGH, BRASH OFFICER WHO HAS LET IT BE KNOWN HE INTENDS TO BE NO RESPECTER OF PERSONS OR RANK IN CARRYING OUT HIS ASSIGNMENT.

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4. EPSA SCANDAL, TO WHICH PRESIDENT VELASCO REFERRED INDIRECTLY DURING HIS SPEECH ON OCTOBER 9, HAS CAUSED REVERBERATIONS AMONG CIVILIANS AND THE MILITARY ALIKE, AND HAS BEEN SUBJECT OF MUCH SPECULATION. THE FOLLOWING CONTRADICTORY THEORIES ARE MAKING THE ROUNDS:

A. REVELATION OF EPSA SCANDAL AT THIS TIME WAS CONSCIOUS DECISION BY PRESIDENT VELASCO. REVERBERATIONS OF SCANDAL MAY

EVEN-
TUALLY TOUCH SENIOR GENERALS SUCH AS PRIME MINISTER MERCADO
AND HIS PRESUMPTIVE SUCCESSOR, CHIEF OF STAFF MORALES
BERMUDEZ, THUS PERMITTING VELASCO TO DISREGARD ARMY
SENIORITY IN ARRANGING SUCCESSION TO SENIOR POSTS SUCH AS
THAT OF PRIME MINISTER AND PERHAPS EVEN THE PRESIDENCY IT-
SELF. EFFECT OF SHAKEUP ACCORDING THIS SCENARIO WOULD BE
TO LEAVE VELASCO MORE FIRMLY IN COMMAND THAN EVER AND TO
ENSURE TO EXTENT POSSIBLE THAT HIS SUCCESSOR WOULD BE
TYPE OF MAN WHO WOULD CONTINUE COURSE HE HAS CHARTED.

B. INVESTIGATIONS MAY HAVE BEEN INSTIGATED BY
GENERAL MORALES BERMUDEZ WITH THIS AND OTHER SCANDALS
INTENDED TO LEAD TO OUSTER OF LEFTIST GENERALS IN GOVERN-
MENT. TARGETS WOULD BE MINISTER OF AGRICULTURE VALDEZ
(NOT NOTABLY LEFTIST, BUT CLOSE TO VELASCO), MINISTER OF
MINES JORGE FERNANDEZ MALDONADO (WHO MIGHT BE TIED TO
WIDELY RUMORED IRREGULARITIES IN MINEROPERU), AND MINISTER
OF TRANSPORT RAUL MENESES (WHOSE LUXURIOUS NEW LIMA RESI-
DENCE IS SOMETHING OF A PUBLIC JOKE). OBJECTIVES WOULD BE
TO DISARM THESE AND OTHERS WHO MIGHT OPPOSE THE IMPENDING
ASSUMPTION OF PRIME MINISTER BY MORALES BERMUDEZ.

C. REVELATION OF EPSA IRREGULARITIES ON HUGE SCALE,
INCLUDING CONSIDERABLE GOP TRUMPETING ABOUT HALTING "CONTRA-
BAND" TRADE OF FOODSTUFFS ACROSS PERU'S BORDERS, WOULD PRO-
VIDE CONVENIENT SCAPEGOAT FOR COMMODITY SHORTAGES AND RISING
COSTS. THIS THEORY IS NOT NECESSARILY INCOMPATIBLE WITH
EITHER OF THE FOREGOING TWO.

5. OF ALL SCENARIOS, WE TEND TO THINK FIRST THE MOST LIKELY,
WITH OR WITHOUT THE SINISTER MOTIVES ATTRIBUTED TO VELASCO.
WE HAVE NO REASON TO BELIEVE VELASCO IS NOT AS FIRMLY THE
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MASTER OF THE SITUATION AS WAS THE CASE DURING THE "NAVY
CRISIS" LAST MAY WHICH CULMINATED IN THE DEPARTURE OF MODERATE
NAVY MINISTER VARGAS CABALLERO. HOWEVER, DEVELOPING EPSA

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ACTION ARA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-01 INR-05 L-02

NSAE-00 NSC-05 PA-01 RSC-01 PRS-01 SP-02 SS-15

USIA-06 AID-05 COME-00 EB-04 FRB-01 TRSE-00 XMB-02

OPIC-03 CIEP-01 LAB-01 SIL-01 OMB-01 STR-01 AGR-05

IGA-01 /079 W

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P R 222305Z OCT 74

FM AMEMBASSY LIMA

TO SECSTATE WASHDC PRIORITY 2451

INFO AMEMBASSY LA PAZ

AMEMBASSY SANTIAGO

AMEMBASSY QUITO

AMEMBASSY BOGOTA

AMEMBASSY CARACAS

C O N F I D E N T I A L SECTION 2 OF 2 LIMA 8955

EO 11652: GDS

TAGS: EIND, PINT, PGOV, PE

SUBJECT: GROWING SCANDAL IN GOVERNMENT CONSITUITIES UNSETTLING
NOTE ON PERUVIAN POLITICAL SCENE

SCANDAL MAY RELEASE FORCES VELASCO WILL EVENTUALLY FIND
IT MORE DIFFICULT TO CONTROL.

6. AMONG MILITARY THERE ARE SOME INDICATIONS, AMONG ARMY
AT LEAST, OF DISCONTENT THAT LIEUTENANT COLONEL AS OBSCURE
AS CARRASCO SHOULD EMERGE WITH AUTHORITY TO CAUSE ARREST
OF MORE SENIOR OFFICERS. ALSO, FEW AMONG MILITARY IN TOP
GOVERNMENT POSITIONS ARE LIKELY TO BE COMPLETELY UNTAINTED
BY CORRUPTION. PRESIDENT VELASCO HAS SAID HE INTENDS TO
PURSUE INVESTIGATION VIGOROUSLY "CAIGA QUIEN CAIGA", WHICH
MAY MAKE MANY SUCH SENIOR OFFICERS UNEASY. THIS IS PARTI-
CULARLY THE CASE SINCE DEVELOPMENT OCCURS ON HEELS OF WHAT
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SOME IN MILITARY REGARD AS VELASCO'S MISTAKES, INCLUDING
THE CONFRONTATION WITH THE NAVY, THE TAKEOVER OF THE PRESS,
THE GROWING CLOSENESS TO CUBA, AND PERU'S DRIFT TO THE
LEFT.

7. THE DEVELOPMENT IS ALSO ALARMING TO THE CIVILIAN MIDDLE

CLASS. EPSA OFFICIALS BY AND LARGE CAME FROM SIMILAR POSITIONS IN THE PRIVATE SECTOR, AND PRESS COMMENTARY ON SCANDAL HAS CARRIED OVERTONES OF CRITICISM OF PRIVATE ENTERPRISE. ARTICLE IN GOVERNMENT-OWNED "LA CRONICA", FOR EXAMPLE, NOTED THAT SCANDAL IS RESULT OF "SICK SOCIETY" AND WAS CAUSED NOT BY MEN BUT BY SYSTEM, "IMPERIALIST DOMINATION AND CAPITALISM WITH ALL ITS SOCIO-ECONOMIC, JUDICIAL, MORAL, POLITICAL AND CULTURAL STRUCTURE."

IN SHORT, ALTHOUGH VELASCO'S CONTROL CONTINUES TO APPEAR FIRM, IT COULD BE THAT THE EPSA MESS IS BUT ONE MORE INDICATION THAT THINGS MAY BE GETTING EVER SO SLIGHTLY OUT OF HAND. AMONG SUCH INDICATIONS ARE THE UNAUTHORIZED LAND SEIZURES IN ANDAHUAYLAS AND OTHER PARTS OF THE COUNTRY; THE PRESIDENT'S INABILITY TO COME TO TERMS WITH SUTEP, THE LEFTIST TEACHERS UNION; THE GOVERNMENT'S FAILURE FULLY TO CONTROL THE RECENT CAMPESINO CONGRESS; AND THE FAILURE FULLY TO ANTICIPATE THE NEGATIVE DOMESTIC AND FOREIGN REACTION AGAINST THE PRESS TAKEOVER. THUS, WHILE VELASCO WILL IN ALL PROBABILITY RIDE OUT THE EPSA STORM, HE MAY HAVE UNDERESTIMATED THE FORCES HE HAS RELEASED AND THE DEGREE TO WHICH HE AND HIS GOVERNMENT CAN REMAIN IMMUNE FROM RESPONSIBILITY FOR THE SCANDAL. FURTHER DEVELOPMENTS IN THIS RAPIDLY EVOLVING SITUATION MAY CONSIDERABLY CHANGE THE FOREGOING ANALYSIS. HOWEVER, IT SEEMS THAT AT THIS MOMENT THE PERUVIAN POLITICAL SCENE IS CHARACTERIZED BY GREATER FLUIDITY THAN AT ANY TIME WITHIN THE PAST SIX YEARS.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PRESS COMMENTS, CORRUPTION, PERSONNEL RESIGNATIONS, POLITICAL SITUATION, REORGANIZATIONS, PUBLIC ADMINISTRATION, FRAUDS
Control Number: n/a
Copy: SINGLE
Draft Date: 22 OCT 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: shawdg
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974LIMA08955
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D740301-0650
From: LIMA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19741028/aaaaaxci.tel
Line Count: 251
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: LIMA 8823
Review Action: RELEASED, APPROVED
Review Authority: shawdg
Review Comment: n/a
Review Content Flags:
Review Date: 09 SEP 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <09 SEP 2002 by boyleja>; APPROVED <05 MAR 2003 by shawdg>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GROWING SCANDAL IN GOVERNMENT CONSITUTES UNSETTLING NOTE ON PERUVIAN POLITICAL SCENE
TAGS: EIND, PINT, PGOV, PE, (VALDEZ), (VELASCO)
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005